

HOUSE BILL ANALYSIS

HB 2142

Brief Description: Regulating assignment of rights of lottery winnings.

Sponsors: Representatives Lisk, Cole, and Honeyford

Hearing: March 3, 1997

BACKGROUND:

Lotto jackpot winners receive their prize payments in annual installments paid over a period of 20 years. In 1996, Lotto winners were given the authority to assign their right to receive their annual payments to a third party for a lump sum cash payment. This right to assign their winnings is contingent upon a ruling from the Internal Revenue Service (IRS) that voluntary assignment will not affect the federal income tax treatment of those winners who do not assign their rights.

Lotto winners who wish to assign the right to receive annual prize payments must seek an order from superior court allowing the assignment. The order must be based on findings that the prize winner has had the opportunity to be represented by legal counsel, has received independent financial and tax advice, and is not acting under duress.

In July, 1996, the IRS issued a private letter ruling that left open the possibility of adverse tax consequences to those winners who do not assign their right to receive prizes payments. A winner pays federal tax on the amount of their prize that they receive each year. A winner who assigns their right to receive prize payment and receives a lump sum cash payment must pay tax the amount of the lump sum payment. A winner, having the option to convert the annual payments to a lump sum cash payment, may be treated by the IRS as having received the full value of their prize on which tax is due, whether they choose to exercise the option or not. If the IRS finds there is a ready market for purchasing these rights to receive prize payments, the IRS may treat all winners for tax purposes as if they have assigned their prizes, including current and past winners.

Based on the IRS private letter ruling, the Lottery Commission has objected to processing requested assignments. The court has approved a number of assignments and the commission has appealed the court's orders.

SUMMARY OF BILL:

In addition to the findings that a court must now make in approving an assignment of the right to receive prize payments, the court must find that the interest and discount rate used to arrive at the winner's present value for their prize have been disclosed in writing to the prize winner.

Voluntary assignments will not be allowed if, at any time, the IRS or a court rules for any state lottery or lottery prize winner, that voluntary assignment will affect the federal tax treatment of prize winners who do not assign their prizes. The director of the Lottery must file a copy of the ruling with the Secretary of State.

RULES AUTHORITY: The bill does not contain provisions addressing the rule-making powers of an agency.

FISCAL NOTE: Not requested.

EFFECTIVE DATE: Ninety days after adjournment of session in which bill is passed.